

**THE SOUTHERN AFRICAN INSTITUTE OF MINING AND METALLURGY  
OIL AND GAS WORKING GROUP COMMITTEE**

**Minutes of the meeting held at the Venmyn Deloitte, Sandton, Johannesburg  
on 1 February 2013 at 08h00**

Present:

A Clay (Chairman)	
E Takolia	R Davel
J Roux	S Davids (Deputy Chairman)

Apologies:

A de Bruyn (JSE)	H Sternberg
C Mumby (OUPASA)	J Scales
K Rayner	M Wood
J Etherington	S Johnson
A Dippenaar	J Decker

Welcome

Welcome to all, particularly those who have commuted from Cape Town for the meeting

Review of Previous Minutes

The minutes of the previous meeting were accepted as a true reflection with the exception of the following corrections - Andrew Dippenaar is with PetroSA and not PASA and Steve Mills is no longer with PASA. Andy Clay proposed acceptance, Sean Davids seconded.

Actions items

The mandate drafted at the 19 July 2012 meeting was tabled at the SSC meeting of 25 October 2012. At the December 2012 meeting of the SSC, the SAIMM representative raised concerns about the SAMOG code being incorporated into the SAMREC code. It was then decided by the SSC that each of the 15 representatives of the SSC would go back to their respective Councils and ask them where they consider the SAMOG code should be housed. The three options would be that the Code is housed at the JSE, it is included in the SAMREC Code or it forms a separate code within the suite of SAMCODES as contained in the mandate approved at the SSC meeting of 25 October 2012.

The SAIMM wishes to enable the SAMOG code but is uninformed at this stage as to where the best place would be to home the code. The manager has been tasked with canvassing opinion from the Working Groups and other SSC representatives on where it should be placed before a decision is reached.

Andy Clay has communicated to the GSSA and the SAIMM that Shale gas and all the aspects of the linkages between solid minerals and oil and gas is something that is happening. It is a strategic issue and it is therefore in the best interest of the societies to take the lead, in particular the SAIMM and the GSSA.

Riaan Davel noted that through SAICA, there are parallel processes such as registration, because the JSE has indicated their desire for a compulsory registration process for Competent Persons and Competent Valuers that report into the Stock Exchange. Where that is of importance to us, is that the GSSA and the SAIMM have suggested it should be the professional institutes that are involved in the registration process/recognizing who is competent and who isn't. The problem is that they are not yet aligned or affiliated with the SPE or the APG, or the people who administer the PRMS. The question would then be how disciplinary PRMS matters would be dealt with in terms of Oil and Gas. The SPE has no desire to institute disciplinary procedures in terms of members but they, together with the AAPG would need to be approached to be asked how they would see disciplinary procedures taking place. Oil and Gas would need its own category of Competent Person.

#### Review of O&G Proposed Codes Working Draft and subsequent changes

The WG proceeded to work through the draft code, the comments sent in by Annalie de Bruyn from the JSE and the NI51-101. A problem with NI51-101 is that it references to COGE while the O&GWG will be using the PRMS system.

It was suggested that the minutes of the meeting be sent to the President of the SPE with a letter indicating that the WG is working on the code and does not wish to break ranks with anybody and can they establish a link with the SPE on how to handle this. **Action Andy Clay**

A question was raised on the copyright of PRMS and it was agreed that the WG must check the copyright with the management organisation of the PRMS. **Action Julie Dixon**

The next section is a question –answer section based on comments from the JSE:

1. *The last paragraph under Introduction refers to recognised material identified on the SAMREC Website. What is this?*

There was concern about what was contained on the website; people have to comply with it and therefore need to understand what it is. It was agreed that the clause should be deleted as it is a standard clause in the SAMREC code. Under the first paragraph on the first page, it details how this has all evolved. This is a sufficient introduction to explain where it all comes from, hence conclusion to delete the paragraph.

2. Under competence and responsibility

- 2.1 *Second paragraph: What do we mean by “The competent person must comply with the provisions of the promulgated Acts. It is suggested we include a definition for Acts. In reply it was submitted that this is the same wording as in the SAMREC and SAMVAL codes and there is no definition of “Acts”. Perhaps this should be a main change for the SAMCodes. It was also suggested that the last sentence of the paragraph be amended to read “the provisions of any promulgated Acts that may regulate or legislate the preparation of a public report.” The WG agreed to the amendment. **Action – Julie Dixon to raise this concern with the SSC***

Competent persons as under SAMCODE, the recommendation under the SSC should be that we stay with the SAMCODE in terms of Competent Persons. This is a sister code under the

umbrella of SAMCODE, administered under the SSC. The WG agreed to the wording of the paragraph.

The insertion of: “the SSC will maintain a watching brief on the potential changes of the PRMS and NI51-101 that may influence the interpretation and application of the Code.”

2.2 *Is it really necessary to have another paragraph on public reports?* Yes, because individuals looking at the Codes may only be reading the SAMOIL code in isolation and would therefore need to have the clause in.

### 3. Reporting Terminology

3.1 *Not sure what we refer to in the first paragraph “other acknowledged reporting guidelines”* – it was suggested that the following clause be added to address this:

“All reports should be prepared taking into account all the principles contained in PRMS and referenced by the SAMCODE website.”

And

“For the purpose of reporting in South Africa, whilst NI51-101 is referenced here, preparers are specifically required to adhere to Part 5 Requirements Applicable to all disclosure. For the sake of clarity, Competent Persons and Competent Valuers reporting on Oil and Gas Mineral Assets must demonstrate compliance with Part 5 of NI51-101 by submitting a checklist with the reports, identifying where the obligations required under Part 5 have been met in the report.”

3.2 *We need to consider whether we want companies to include “yet to be discovered” resources* - If this is globally consistent, that is the way the SA code will go. **Action: John Etherington to advise.**

When considering 5.1 of the NI51-101, in respect to the query above, it can be added in the code as a “must comply”. Copyright issues need to be investigated.

3.3 *We need to consider “Possible Reserves” should be included in the valuation of the reserves. If we decide not to include it, I suggest we refer to NI51-101 paragraph 5.2(v) and exclude that statement as well.* – If Canada accepts “possible reserves” in Oil and Gas, particularly because Oil Reserves are defined using statistical and probabilistic methodologies, this could be an important connection to potentially include the re-introduction of “Possible Reserves” in the Minerals Industry Codes (CRIRSCO) on the basis that Shale Gas is the interface between solid mineral sand O&G.

Essentially with the two abovementioned points, they are covered in the existing NI51-101 and it is advisable that the SA Code be aligned in totality. **Action: John Etherington to comment.**

Riaan Davel queried if the matters were fundamental because then it would not be possible to accept the code and we would have to draft a new code but that would be counter -intuitive.

- 3.4 *Therefore it is suggested that we include our own definitions for Oil and Gas Resources and Reserves* – as mentioned above, the O&GWG wishes to align itself with the Canadian code and strongly advises against this route.
- 3.5 *I suggest we refer to the definition of materiality to be used instead of the standard defined in NI51-101: The group considered 5.2 of the Code. Where NI51-101 refers to COGE, the SA Code will refer to PRMS. The following wording was suggested: “Reference to 5.2 (d) is superseded by the following – point 2.1.1 of NI51-101 will then be inserted.”*
- 3.6 *It is suggested we refer to Section 5 of NI51-101 instead of the full NI51-101 as the first few paragraphs may be confusing when preparing a report for the SA market* – again it was reiterated that SA wants to take a path that aligns with Canada, if they ultimately change from COGE to PRMS, we could facilitate a global code. Other jurisdictions may also follow if they see SA aligning. Many jurisdictions are already using PRMS.

Riaan Davel asked the question: Can a person report just in terms of PRMS, it is a compliance question. If a person follows PRMS, can that person disclose what they want? Is it clear enough out of the standard to indicate what has to be disclosed to ensure compliance? How “Code” is PRMS, can it stand alone? **Action: John Etherington to comment.**

The JSE can stipulate to individuals that for Oil and Gas, they can report to the SAMOIL code, because it will include in it a standard on how to report. PRMS is included as it is believed to be the best practice in terms of reporting on Oil and Gas.

- 3.7 Paragraph 5.2 (iii) of NI51-101 states that “the estimates of reserves must be prepared or audited in accordance with the COGE handbook” – where this wording appears, the SA code will state where NI51-101 refers to COGE, read PRMS.
- 3.8 *I don’t see a definition for “future net revenue” although NI51-101 par 5.2 (a) refers to it The JSE would require a definition, for the reporting accountant to sign off on this, and stipulate for which period (no longer than 2 years)* – it was suggested that the WG create a definition and raise the omission with the OSC. This raised the issues for IMVAL and SAMVAL, because valuation calculations for Mineral Assets invariably include life of mine cash flow, which is probably the same as future net revenue. Therefore a 2 year period would have other unintended consequences. IMVAL and SAMVAL need to be made aware of this problem.  
**Action Andy Clay to communicate with IMAL and SAMVAL**

An issue was raised that needs to be referred back to John Etherington to confirm whether or not COGE and PRMS is in any way in conflict with the requirements for future net revenue.

**Action Andy Clay and John Etherington**

The definition for future net revenue will be tabled at SAMVAL and IMVAL. **Action: Godknows Njowa to assist.**

- 3.9 *Not sure what is referred to under NI51-101 paragraph 5.2(d)* – settled above.

- 3.10 NI51-101 para 5.3, it is suggested we include our own resource and reserve definitions – it was agreed at the WG that this will not happen but it was noted that the WG would like to consider Annalie de Bruyn’s reasoning behind the comment.

Riaan Davel suggested that one reason may be because there will have to be a lot of education around this.

The SAMVAL WG and IMVAL will be asked to review the question – in terms of the implications of future net revenue reporting for oil and gas, whether there are any inconsistencies that exist, to their knowledge. **Action Andy Clay to communicate with IMAL and SAMVAL**

- 3.11 *Not sure if NI51-101 5.4 is relevant in terms of “sales” as it is not included in our code* – The current practice of reporting the future cash flow for a Mineral Asset generally includes a line item that shows saleable product. If we need to make this clear in the SAMVAL code for the JSE as part of convergence of the reporting standards, this could be useful.

This same question was raised at the SAMREC WG by Anglo American – they asked whether metallurgical factors that convert from run of mine to saleable product should be more clearly defined. They enquired about changing the SAMCODE diagram to include saleable product. A sub-group was established to consider this matter.

The JSE’s comment with regards to 3.11 and 5.4 and 5.5 of Part 5 of NI51-101 was considered and the WG believe this would be a standard reporting process but they will check that PRMS accommodates for it.

Point 5.6 was considered – it states that future net revenue is NOT fair market value.

- 3.12 Section 5.7 of NI51-101 – the JSE needs to provide specific guidance on this issue, since this clause essentially reinforces the requirements for the Competent Evaluator or Auditor to give consent to the disclosure of the report. – it was suggested that where it reads section 5.7, in NI51-101 the SA code should state that the individual must refer to and comply with the JSE listing rules. **Action: Annalie de Bruyn to be asked to explain one on one with Andy Clay and Riaan Davel**

With reference to section 5.7 of part 5, the South African position of the SSC is that independence is not a compulsory requirement but may need to be demonstrated by the commissioning entity of a report. Therefore, it is not necessary to comply with Section 5.7 in South Africa.

- 3.13 Section 5.8 – there is no concern around this section.

- 3.14 Section 5.9 – again in this section, if there is a reference to COGE, the person must refer to PRMS. In section 5.9(2) and (3) the issue relating to the requirement by the Canadians for independence and that the SA position makes reference to 5.7 which is consent and independence.

- 3.15 Section 5.11 – *the JSE suggested this be excluded*. This was countered by the WG as they feel it should be included. Again it was suggested that more information is needed as to the thinking of the JSE re excluding it. JSE will be asked for further clarity, otherwise it will be left in. **Action Andy Clay and Riaan Davel to meet with Annalie de Bruyn.**
- 3.16 Section 5.12 – no concern about this section
- 3.17 Section 5.13 – “Netbacks” – a netback is how much money is effectively attributable after all of the deductions – an oil and gas term. Andy Clay will find and include the definition. It will be left in the draft code. **Action Andy Clay and John Etherington to comment**
- 3.18 Section 5.14 will be left as is.
- 3.19 Section 5.15 will be left as is.

All changes and comments will be included in the document, recirculated and the JSE (Annalie de Bruyn) will need to add further input to our queries. Riaan Davel and Andy Clay will meet with Annalie de Bruyn to discuss the document. **Action: Annalie de Bruyn, Riaan Davel and Andy Clay.**

A question was raised – if PRMS is the preferred standard, why is COGE still being used? And if you use COGE vs PRMS, will you arrive at the same answer? The history of COGE vs PRMS needs to be considered. **Action: John Etherington to comment**

#### 4. Form 1

Form one is the reporting form. It is a statutory simple layout on how to report, and if we do this in our environment, it sets the basis on which to do mineral asset valuation forms.

SAMVAL committee to consider the issue of Form 1 and the reserves data and the price and costs assumption needs to be referred back to the SAMVAL WG for their deliberation at the O&G WG would like to continue with Form 1. However there is a concern about a kickback into valuations – they need to consider that that might be. **Action Andy Clay to communicate with SAMVAL**

**Action: John Etherington to comment:** With respect to the preliminary review of Form 1, there are a number of comments being made with posted prices and the meaning and reasoning of forecast pricing. Please comment on the extent to which Form 1 may be in anyway in contradiction to the general principles incorporated in PRMS.

**Action: John Etherington to comment:** under part 4, under point 3 of the instructions, will there be any future difference to the interpretation of this standard if Canada bases their code on PRMS (at the moment it is COGE).

**Action: John Etherington to comment:** which came first, COGE or PRMS? If it was COGE, was PRMS largely based on COGE?

To ask John Etherington : Item 6.3 – forward contracts, will section 2 be changed to reflect IFRS.

5. Plan of action

Deadline – 3 weeks. Andy Clay will make the amendments and circulate it to the WG. It will be a draft of the main code. Any additional requirements or queries for the JSE/Annalie de Bruyn and John Etherington will be tabled. The next draft of the code will then be ready to be adopted, subject to a decision on whether a simple paragraph on Form 1 compliance will be sufficient. In terms of the actual report, please use Form 51-101 (1). Hence a reporting framework and form.

Essentially the result would be one code incorporating section 5. Any changes in the NI51-101 and PRMS will be closely monitored, otherwise people will be referred to Form 1 for a reporting template and process. .

Member of the committee are kindly requested to review Form 51 -101 (F1) at attached with our corrected version of the SAMOG code and then be prepared with feedback at the next meeting. Action: Committee

Next meeting – 3<sup>rd</sup> week of March in Cape Town –proposed date – Tuesday the 19<sup>th</sup> of March.